

## Message Text

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PAGE 01 MANILA 10573 01 OF 02 171030Z

14

ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 SCI-06 SPC-03 AID-20 EB-11 NSC-10

RSC-01 CIEP-02 SS-15 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 IO-13 NEA-10 DRC-01 L-03 H-03 PA-03 PRS-01

USIA-15 /178 W

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P 170900Z SEP 73

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 8023

INFO AMEMBASSY SAIGON PRIORITY

LIMITED OFFICIAL USE SECTION 1 OF 2 MANILA 10573

USADB

FOR NAC AGENCIES

E.O. 11652: NA

TAGS: EAID, EFIN, VS

SUBJECT: PROPOSED ADB LOANS FOR SAIGON WATER DISTRIBUTION  
PROJECT

REF: MANILA 9853

SUMMARY: ADB MANAGEMENT PROPOSED TWO LOANS TOTALING \$4.6 MILLION  
TO REPUBLIC OF VIETNAM, OF WHICH \$3.15 MILLION WOULD BE FROM  
SPECIAL FUNDS RESOURCES AND \$1.45 MILLION FROM ORDINARY  
CAPITAL RESOURCES, TO FINANCE EXCHANGE COST OF IMPROVEMENT AND  
EXPANSION OF WATER DISTRIBUTION SYSTEM IN SAIGON METROPOLITAN  
AREA. USADB RECOMMENDS FAVORABLE NAC ACTION. END SUMMARY

1. ADB DOC. R72-73 WITH ATTACHMENTS DESCRIBING PROPOSED LOANS  
POUCHED ADDRESSEES SEPT. 11. BOARD OF DIRECTORS CONSIDERATION  
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PAGE 02 MANILA 10573 01 OF 02 171030Z

SCHEDULED SEPT. 27.

2. ADB MANAGEMENT PROPOSING BLENDING OF LOANS OF \$3.15 MILLION FROM SPECIAL FUNDS RESOURCES AND \$1.45 MILLION FROM ORDINARY CAPITAL RESOURCES (TOTAL OF \$4.6 MILLION) TO REPUBLIC OF VIETNAM. GOVERNMENT WILL RELEND PROCEEDS TO SAIGON METROPOLITAN WATER OFFICE (SMWO) ON TERMS AND CONDITIONS ACCEPTABLE TO BANK. PROCEEDS WILL FINANCE FOREIGN EXCHANGE COST OF PRIMARY DISTRIBUTION MAINS, SECONDARY DISTRIBUTION MAINS, FIRE HYDRANTS AND CONSULTING SERVICES FOR EXPANSION AND IMPROVEMENT OF EXISTING WATER DISTRIBUTION SYSTEM IN SAIGON, IN ORDER TO SERVE WATER NEEDS OF SAIGON METROPOLITAN AREA (SMA) FOR IMMEDIATE FUTURE. PROJECT INCLUDES LAYING ABOUT 38 KM. OF PRIMARY DISTRIBUTION MAINS, ABOUT 1150 KM. OF SECONDARY DISTRIBUTION MAINS, INSTALLATION OF ABOUT 500 FIRE HYDRANTS AND INSTALLATION OF 60,000 NEW METERED WATER SUPPLY CONNECTIONS TO BE PURCHASED BY SMWO WITH OWN FUNDS. PROJECT BASED ON FEASIBILITY REPORT PREPARED IN JANUARY 1972 UNDER TECHNICAL ASSISTANCE GRANT FROM USAID, AND IS FIRST STAGE OF THREE-STAGE PROGRAM RECOMMENDED BY CONSULTANTS FOR IMPROVEMENT AND EXPANSION OF SYSTEM UP TO 1980. PROPOSED PROJECT EXPECTED TO BE COMPLETED BY END 1976. PROPOSED TERMS ARE (A) 40 -YEAR AMORTIZATION INCLUDING 10-YEAR GRACE PERIOD, ONE PERCENT INTEREST, FOR SPECIAL FUNDS LOAN AND (B) 20-YEAR AMORTIZATION INCLUDING 5 -YEAR GRACE PERIOD, 7 1/2 PERCENT INTEREST, FOR ORDINARY CAPITAL LOAN. REPUBLIC OF VIETNAM TO BE BORROWER, AND SMWO TO BE EXECUTING AGENCY.

3. SMA COMPRISES URBAN COMPLEXES OF SAIGON, CHOLON, AND GIA DINH AND SURROUNDING AREA COVERING ABOUT 170 SQM KM. POPULATION OF SMA GREW FROM ABOUT 500,000 IN 1945 TO ABOUT 2,900,000 BY 1970, WITH GROWTH RATE OF ABOUT EIGHT PERCENT PER ANNUM DURING PAST SEVEN YEARS, AND IS EXPECTED TO REACH 4,600,000 BY 1980. AT PRESENT, SMA CONTAINS ABOUT 18.5 PERCENT OF COUNTRY'S POPULATION AND HAS 70 PERCENT OF ITS INDUSTRIAL PRODUCTION CAPACITY. PHENOMENAL POPULATION EXPANSION IN SMA HAS SERIOUSLY OVERBURDENED ALL PUBLIC UTILITIES IN CITY, ESPECIALLY WATER SUPPLY AND DISTRIBUTION FACILITIES.

4. SMA AND NEARBY BIEN HOA INDUSTRIAL ZONE ARE PRESENTLY SERVED BY SINGLE WATER SUPPLY SYSTEM BASED ON SURFACE WATER FROM DONG NAI RIVER AND OPERATED BY SMWO. SYSTEM WAS CONSTRUCTED WITH HELP OF LIMITED OFFICIAL USE

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PAGE 03 MANILA 10573 01 OF 02 171030Z

USAID LOAN AND WAS COMPLETED IN 1966. EXISTING COMPONENTS OF WATER SUPPLY SYSTEM WERE INTENDED TO BE ADEQUATE UNTIL 1980, BUT DUE TO RAPID POPULATION GROWTH OF SMA CAUSED BY WARTIME ENVIRONMENT, MEASURES NOW URGENTLY NEEDED TO EXPAND WATER PRODUCTION FACILITIES AS WELL AS IMPROVING AND EXPANDING WATER DISTRIBUTION FACILITIES. PRESENT DISTRIBUTION SYSTEM IS IN VERY POOR CONDITION AND IS INCAPABLE OF DISTRIBUTING AVAILABLE WATER SUPPLY TO CITY AT SATISFACTORY PRESSURES. ONLY ABOUT

121,000 OF OVER 230,000 HOUSING UNITS IN SAIGON ARE AT PRESENT PROVIDED WITH WATER SERVICE CONNECTIONS. PROPOSED PROJECT WILL ENABLE SMWO TO PROVIDE WATER SERVICE CONNECTIONS FOR ABOUT 60,000 NEW CUSTOMERS. WATER LOSSES FROM PRESENT CORRODED AND LEAKY SYSTEM WILL BE REDUCED FROM PRESENT HIGH LEVEL OF ABOUT 32 PERCENT TO ABOUT 20 PERCENT OF TOTAL WATER PRODUCTION. INCREASED OPERATING PRESSURE WILL PROVIDE MORE EFFECTIVE UTILIZATION OF SYSTEM CAPACITY AND IMPROVE FIRE FIGHTING CAPABILITY. AT SAME TIME, SMWO WILL FINANCE-- FROM ITS OWN FUNDS-- TOTAL CAPITAL COST OF PROPOSED DONG NAI WATER PRODUCTION SYSTEM EXPANSION, ESTIMATED AT \$3.65 MILLION, WHICH IS SCHEDULED FOR COMPLETION BY END OF 1975.

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PAGE 01 MANILA 10573 02 OF 02 180343Z

15

ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 SCI-06 SPC-03 AID-20 EB-11 NSC-10

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SIL-01 IO-13 NEA-10 DRC-01 L-03 H-03 PA-03 USIA-15

PRS-01 ( ADP ) W

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P 170900Z SEP 73

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 8024

INFO AMEMBASSY SAIGON PRIORITY

LIMITED OFFICIAL USE SECTION 2 OF 2 MANILA 10573

5. TOTAL COST OF WATER DISTRIBUTION PROJECT ESTIMATED AT \$11.8 MILLION EQUIVALENT, OF WHICH FOREIGN EXCHANGE COMPONENT PROPOSED FOR BANK FINANCING IS \$4.6 MILLION. SMWO WILL FINANCE LOCAL CURRENCY COST FROM FUNDS GENERATED INTERNALLY FROM SMWO OPERATIONS, AND GVN HAS ASSURED AVAILABILITY OF LOCAL CURRENCY FUNDS TO SMWO IF NEED ARISES. PROPOSED \$1.45 MILLION LOAN FROM ORDINARY CAPITAL HAS BEEN ALLOCATED FOR PROCUREMENT OF PRIMARY DISTRIBUTION

MAINS, INCLUDING CONTINGENCIES. PROCEEDS OF \$3.15 MILLION SPECIAL FUNDS LOAN ALLOCATED FOR SECONDARY DISTRIBUTION MAINS, FIRE HYDRANTS, FOREIGN ENGINEERING SERVICES AND CONTINGENCIES (SIDE LETTER NO. 1). IMPORTED PIPE COST ESTIMATES MADE ON BASIS THAT COMPLETE PIPES TO BE MANUFACTURED OUTSIDE VIETNAM, BUT PIPE SUPPLIERS WILL HAVE OPTION OF BRINGING PIPE MANUFACTURING PLANT INTO VIETNAM FOR LOCAL MANUFACTURE, IN WHICH CASE THERE MAY BE POSSIBILITY OF SOME FOREIGN EXCHANGE SAVINGS (PARA 70).

6. SMWO-- EXECUTING AGENCY FOR PROJECT-- WAS ESTABLISHED IN 1959 TO TAKE OVER ALL WATER SUPPLY SYSTEMS IN SMA AND TO OPERATE, MAIN-TAIN, DEVELOP AND EXPAND WATER SUPPLY SYSTEMS. IT IS LIMITED OFFICIAL USE

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PAGE 02 MANILA 10573 02 OF 02 180343Z

AUTONOMOUS GOVERNMENT-OWNED PUBLIC UTILITY UNDER GENERAL SUPERVISION OF MINISTRY OF PUBLIC WORKS. IN GENERAL, BANK APPRAISAL MISSION CONSIDERS THAT PRESENT ORGANIZATION STRUCTURE OF SMWO IS BASICALLY SOUND AND THAT SMWO IS SATISFACTORILY MANAGED BUT LACKS TRAINED TECHNICAL AND ADMINISTRATIVE STAFF AT LOWER LEVELS. GVN WILL ENSURE THAT SMWO WILL HAVE ADEQUATE QUALIFIED STAFF TO SUPPORT EXPANDING OPERATIONS (SIDE LETTER NO. 4, PARA.7). PRESENT UNIFORM WATER RATE AND CHARGES CONSIDERED ADEQUATE, AND BANK WILL BE CONSULTED PRIOR TO ANY FUTURE CHANGES. DESPITE ESTIMATED 32 PERCENT OF WATER UNACCOUNTED FOR, SINCE 1970 SMWO HAS BEEN OPERATING AT PROFIT AND REQUIRED NO GOVERNMENT SUBSIDIES.

7. SMWO IS TO ESTABLISH PROJECT OFFICE AND APPOINT DIVISION CHIEF OF CONSTRUCTION DIVISION TO BE PROJECT MANAGER TO SUPERVISE IMPLEMENTATION. CONSULTANTS TO BE FINANCED UNDER PROPOSED BANK LOANS WILL ADVISE AND ASSIST SMWO IN PROJECT DESIGN, PROCUREMENT AND SUPERVISION OF CONSTRUCTION WORKS, AND TRAINING OF SMWO'S TECHNICAL PERSONNEL. CONSULTANTS TO BE SELECTED IN ACCORDANCE WITH BANK'S GUIDELINES ON USES OF CONSULTANTS. PROCUREMENT OF MATERIALS AND EQUIPMENT TO BE GENERALLY IN ACCORDANCE WITH BANK'S GUIDELINES FOR PROCUREMENT. HOWEVER, ELIGIBLE COUNTRIES FOR PROCUREMENT AND OTHER ELIGIBILITY REQUIREMENTS FOR CONTRACTS TO BE FINANCED OUT OF SPECIAL FUNDS RESOURCES WILL BE AS DETERMINED BY BANK.

8. BANK MANAGEMENT RECOMMENDS THAT FINANCIAL ASSISTANCE TO VIETNAM SHOULD BE ON CONCESSIONAL TERMS CONSIDERING STRAINED ECONOMIC SITUATION AND DIFFICULT BALANCE OF PAYMENTS POSITION. IN VIEW OF LIMITED SPECIAL FUNDS RESOURCES AND UNDER RECENTLY APPROVED SPECIAL FUNDS SUPPLEMENTATION SCHEME, BLENDED LOANS BEING PROPOSED. BANK POLICY IS THAT OVERALL GRANT ELEMENT IN BLENDED LOANS WILL BE ADJUSTED TO APPROXIMATE AVERAGE GRANT ELEMENT IN 1972 LOANS. OVERALL GRANT ELEMENT FOR PROPOSED LOANS WILL BE 61.5 PERCENT WHICH, GIVEN COMPOSITION OF PROJECT, IS NEAREST FEASIBLE APPROXIMATION TO 1972 GRANT ELEMENT OF 58.7

PERCENT FOR VIETNAM LOANS. (SEE REFTEL.) BECAUSE OF BANK POLICY TO APPROXIMATE 1972 GRANT ELEMENT, SUBSEQUENT 1973 BANK LOANS TO VIETNAM MAY BE ADJUSTED TO ACHIEVE AVERAGE GRANT ELEMENT OF 58.7 PERCENT.

9. VIETNAMESE ALTERNATE DIRECTOR UNHAPPY WITH 61.5 PERCENT LIMITED OFFICIAL USE

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PAGE 03 MANILA 10573 02 OF 02 180343Z

GRANT ELEMENT, INDICATING GVN HAS SIMILAR STRONG RESERVATIONS, AND WOULD PREFER FAR SOFTER TERMS SINCE PROPOSED LOAN MAY SET PRECEDENT FOR TERMS OF FUTURE LENDING FROM ALL SOURCES. HE HAS INDICATED IMF ADVISOR IN SAIGON SUPPORTS SOFTER TERMS AND ENCOURAGED GVN IN THAT DIRECTION IN NEGOTIATIONS WITH ADB ON TERMS. ISSUE MAY WELL BE RAISED WITH USDEL IN NAIROBI IF OPPORTUNITY ARISES

10. PROPOSED PROJECT IS URGENTLY NEEDED AND HAS BEEN ACCORDED HIGH PRIORITY BY GVN. ADDITIONAL INVESTMENTS BEING MADE BY SMWO FOR EXPANSION OF WATER PRODUCTION AND TREATMENT CAPACITIES AT EXISTING DONG NAI SYSTEM CANNOT BE EFFECTIVELY UTILIZED WITHOUT IT. PROJECT IS CONSIDERED TO BE TECHNICALLY SOUND AND FINANCIALLY VIABLE AND HAS FINANCIAL RATE OF RETURN OF 19.7 PERCENT. USADB SUPPORTS PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION.

11. REQUEST SAIGON'S COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DATED 3 JULY 1972. DECON. 12/31/73. SULLIVAN

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## Message Attributes

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**Current Classification:** UNCLASSIFIED  
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**Decaption Date:** 01 JAN 1960  
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**Disposition Authority:** collinp0  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
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**Review Transfer Date:**  
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**Subject:** PROPOSED ADB LOANS FOR SAIGON WATER DISTRIBUTION PROJECT  
**TAGS:** EAID, EFIN, VS  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005